MARKETING STRATEGIES FOR CONTAINER TERMINALS EIGHT AND NINE

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ABSTRACT

Hong Kong's 140-year history as a world trade centre and its formidable growth during this period have brought prosperity and recognition to an area initially summed up as a "barren rock".

As the nucleus of trade in the Far East, Hong Kong's role as an entrepôt has stimulated the development of a diverse range of industries. One of the most significant and progressive industries to have emerged is the containerised carriage of these goods, to the effect that Hong Kong now rates as the second busiest container port in the world.

In 1971, the government actively decided to promote Hong Kong's shipping potential, and subsequently developed the Kwai Chung Container Port, in conjunction with the private sector, on a restricted section of Hong Kong's coastline.

The first ship to arrive at the terminal tied up at Modern Terminals Limited (MTL) in September, 1972 and from humble beginnings - a mere few thousand containers per year - the figures gradually increased to the present annual throughput in excess of 1.5 million TEU.

With renewed confidence in its political and economic future, assured by the positive outcome of the Sino-British Joint

Declaration, Hong Kong's commercial activity, reflected in the Kwai Chung Port, has been considerably boosted. Several developments have been initiated by the government and the major container operators to cope with anticipated expansion in container traffic. Chief among them were the announcement of the development of Terminals 8 and 9.

MTL, being a company devoted to the future growth of Hong Kong, has committed itself to pursue its expansion plan through bidding for the two future terminals, the former of which has been successfully won. It is because of this corporate plan that leads to the present study with an objective of investigating the marketing strategies for Terminals 8 and 9.

The research is designed as a qualitative and exploratory study aiming at uncovering the important attributes leading to higher demand for terminal facilities, and hence increasing container throughput. The methodology chosen is personal interviews with marketing personnel in MTL and its shipping customers.

The result of the study indicates that marketing efforts for Terminals 8 and 9 should be concentrated on maintaining the existing customers and market shares, increasing yard capacity, developing advanced information technology, and formulating competitive pricing and cost strategies.

However, attention should also be paid to control of the marketing plan during implementation, and various kinds of uncertainties arising from the dynamic situation in order to "craft" strategies for the best environment for success.

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CHAPTER I

INTRODUCTION

1.1 History of the Hong Kong Container Port

The reason for Hong Kong's existence is its seaport. Ships used to put in here for fresh water when Hong Kong was still a sparsely inhabited island in the Pearl River Delta, long before the British flag was raised in 1841. Their eventual destination in those days was Guangzhou (Canton), China's door to the world and a magnet for trade and economic activity.

China has undergone enormous changes since Hong Kong's establishment, sometimes traumatic, sometimes in the form of peaceful development and economic progress. Hong Kong's own economic growth throughout that period has essentially been a reflection of the fortunes of the land to the north. The establishment of the People's Republic of China in 1949 led to Hong Kong replacing Guangzhou as China's doorway, a role it still plays in terms of trade and shipping, even though the Chinese government decided 15 years ago to adopt an open door policy. Indeed, Hong Kong's China trade has grown and prospered to an even greater degree during that time. It is a role that the territory will surely continue

to play in the years after 1997, when it reverts to Chinese sovereignty and becomes a Special Administrative Region of China.

Throughout its history, the adoption of modern working practices and technology is something at which Hong Kong has always excelled. This, allied to a flexibility and a readiness to meet the demands of the market, has created the formula for its tremendous success. In the container handling industry, this was evident in 1967 when representatives of the shipping lines attempted to persuade the government that it was necessary to have a container terminal here.

With private investment only, the container port has grown from the very first terminal, which was constructed and opened by Modern Terminals Limited (MTL)[1] and received its first ship in 1972. Now the port has seven terminals, and demand has always compelled the terminal operators to constantly plan for the future, making sure they don't fall behind in catering for an ever-increasing volume of throughput[2].

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[1] It should be mentioned that the writer is currently an employee of Modern Terminals Limited (MTL). The use of the words "we", "us", "our" and "ours" will refer to MTL.

[2] "Throughput" refers to the volume of containers handled in the container terminals or container ports.

1.2 Present Operations in the Port

In 1991 the Port of Hong Kong handled approximately 6.2 million TEU (Twenty Foot Equivalent Units)[3], an increase of 21 per cent on the 1990 figure of 5.1 million TEU. This compares with a 15 per cent growth in 1990. So the graph in Figure 1 is still moving upwards, in line with the pace of industrialisation in South China. Container port development is presently planned on the basis of a 14 per cent growth per annum[4], which is the average that has been sustained annually for the past ten years. If the same growth rate continues, its compound effect will require Hong Kong to bring an additional container berth into operation every six months.

The Hong Kong Container Port was built and has been operated by private enterprise throughout its short history. It currently has seven terminals operated by Modern Terminals Limited (MTL), Hongkong International Terminals Limited (HIT) and Sealand Orient Limited (Figure 2). In fact, the government has seen its operation and expansion as a source of income for the public coffers, replenished constantly by the premiums the operators pay.

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[3] "TEU" (Twenty Foot Equivalent Unit) is internationally adopted as a measurement unit for container throughput. A twenty foot long container is counted as one TEU, while a forty foot long container as two TEU.

[4] Crichton, John. "Port Development : Hong Kong Style", CONTAINERISATION INTERNATIONAL HONG KONG, December 1991, P.73.

	Year	Kwai Chung	* Mid-Stream	Total
#	1990	3.83	1.27	5.10
	1991	4.37	1.45	5.82
~	1992	4.98	1.65	6.63
	1993	5.67	1.88	7.55
	1994	6.47	2.14	8.61
	1995	7.37	2.45	9.82
	1996	8.41	2.79	11.20
	1997	9.58	3.18	12.76
	1998	10.92	3.62	14.54
	1999	12.45	4.13	16.58
	2000	14.20	4.71	18.91

Note: All figures are in million TEUs

* Mid-Stream means the containers handled at mooring buoys or from ships at anchor

Actual figures

~ 1992 and beyond estimated at a 14% growth per year, starting with the actual figure for 1991

Figure 1. CONTAINER THROUGHPUT GROWTH IN HONG KONG

DEMAND AT 14%

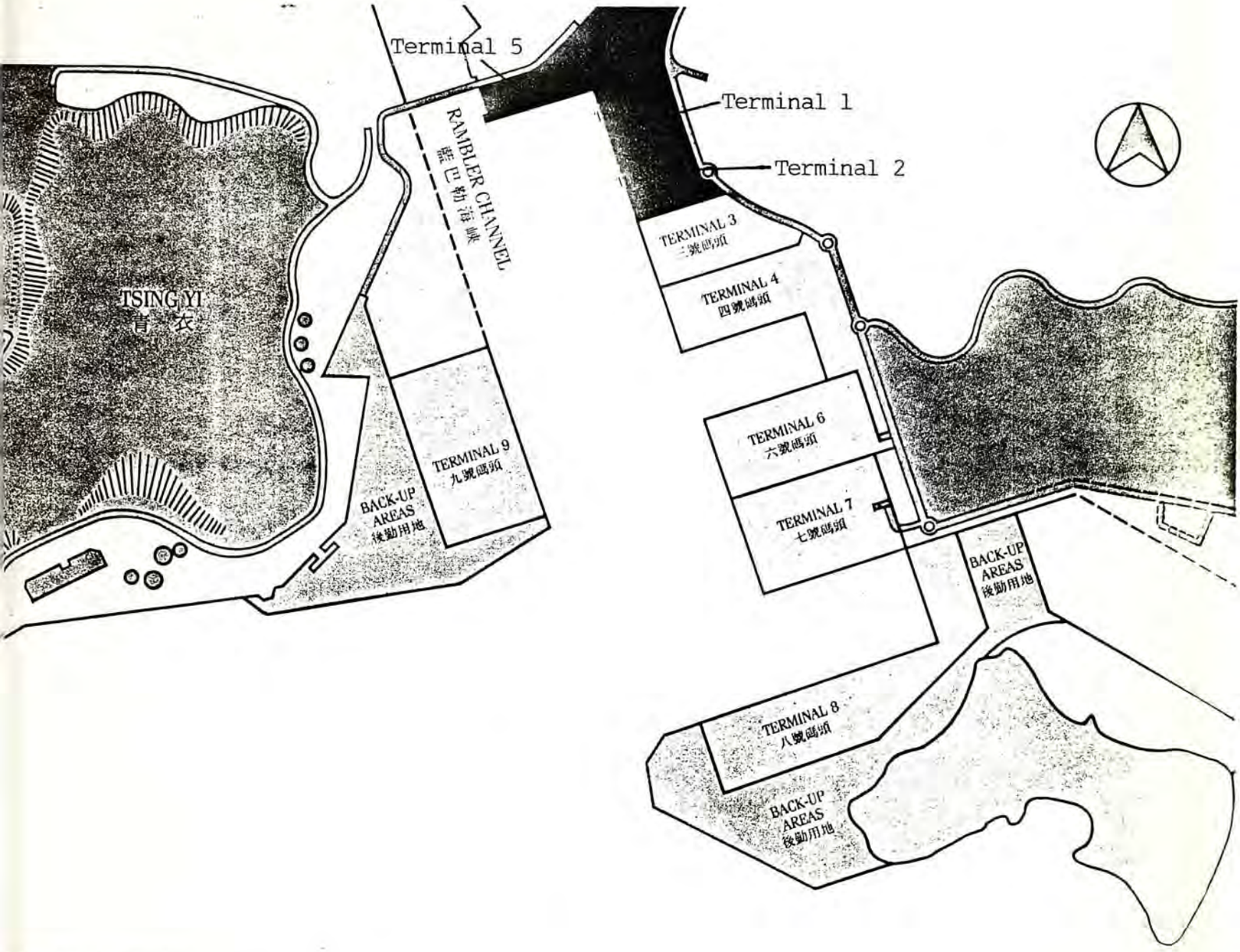

Figure 2. LAYOUT OF KWAI CHUNG CONTAINER PORT

In Hong Kong, the terminal operators, being private enterprises, must make a profit for their shareholders as well as meet the government's requirements. This stands in contrast with many ports throughout the world which are government-owned and operated, including those often referred to as Hong Kong's rivals: Singapore, Kaohsiung (Taiwan) and the ports in Southern China.

This situation, when considered in light of the poor financial shape of the shipping industry at present, seems to put the terminal operators in a tight corner. They must justify their charges when they are compared with ports that are operating on land which was originally government-owned and which cost nothing to acquire. They must ensure a return for their shareholders through keenly-negotiated fees, whereas the others often operate under different financial guidelines. They must also recruit their labour in a tight and expensive labour market.

The fact that the Port of Hong Kong has grown and prospered in these conditions is a source of pride for MTL and the other operators. But it isn't a source of complacency in today's ruthlessly competitive world.

1.3 Future Expansion

As the throughput continues to rise to the limits that

the present facilities can handle, personnel in the field have requested the government to make fresh areas available for expansion.

In early 1991 the government announced that Terminal 8 on Stonecutters Island would be allocated by private treaty agreement. Its development is being undertaken jointly by MTL and COSCO/HIT, the latter being a joint venture between Hongkong International Terminals and the China Ocean Shipping Company of the PRC. The first berth will come onstream in August 1993. When completed Terminal 8 will consist of four berths, two of which will be owned and operated by MTL and two by COSCO/HIT.

To the operators it seems a matter of natural progression that Mainland firms become investors and co-developers of the Container Port in Hong Kong. Chinese companies are already major users and operators of the port. In 1997 Hong Kong reverts to Chinese sovereignty, and will become a "Chinese port" in the fullest sense. HIT has a joint venture with China Ocean Shipping Company (COSCO) in the Terminal 8 project, and MTL has just got the largest PRC company in Hong Kong, China Merchants Holdings Company Limited, to participate as a shareholder in Modern Terminals Limited in April 1992.

At a growth rate of 14 per cent per annum, the additional 1.8 million TEU per annum capacity of Terminal

8 will suffice only until 1995. Then MTL will be looking for the development of a ninth Terminal, also comprising four berths and of similar capacity. This terminal has already been triggered, and civil engineering studies by the government have been completed for it to be sited on the southeast coast of Tsing Yi Island.

However, Terminals 8 and 9 were triggered based on an annual growth rate of 14 per cent. If the annual growth rate slows down to 8 per cent - slightly more than half the present figure - Terminal 9 and even Terminal 8 would have a chance of becoming excess. Something has to be prepared for the worst. A sound strategic marketing plan for the new facilities is vital for the future success of the company.

1.4 Regional and Local Competition

Apart from the domestic sector, MTL has to be aware of the international environment as well. Other ports in the region are not standing by while these developments take place. Considerable development is being undertaken by Singapore, which has overtaken Hong Kong as the world's busiest port in terms of the number of containers being handled since 1990. The Singapore government is already in the process of building a new container port. Forceful and clever marketing extols the Singapore Container Port's

benefits, particularly its location as a transhipment centre, and its attractive tariffs. Although a closer examination of their charges reveals a lot of hidden extras, most of which are incorporated in the standard tariffs in Hong Kong, shippers and shipping lines are likely to be attracted by the superficial benefits.

Taiwan has also embarked on an expansion programme. Its largest port, Kaohsiung, is constructing the remaining three berths of its 8-berth terminal 4, and Keelung and Taichung are both being upgraded in size and facilities.

The pace of modernisation in China has led to similar development of port facilities along its coastline. These are now increasingly being undertaken by a mixture of direct government or government corporation and foreign investment.

MTL's response to its competitors depends upon which ports we are talking about. Singapore and Hong Kong cannot really be regarded as direct competitors because of their locations and the markets which they serve. Singapore specialises in transhipment serving Malaysia, Indonesia, Thailand and the Indian subcontinent, whereas Hong Kong's main focus is upon its own import/export market and China transhipment.

When we examine the port developments in China, the position is somewhat more complex. China has burgeoning industry, especially in the Pearl River Delta area. More and more Hong Kong manufacturers are relocating their factories there, creating an increasing flow of raw materials and finished products between Hong Kong and Southern China.

Rather than undertake expensive port construction which would operate in competition to Hong Kong, MTL believes the Pearl River basin, and indeed Southern China, would be better served by improving their transport, communications and electric power infrastructure, allowing them to continue to use the efficient and competitive container port facilities in Hong Kong, already in place and sustained by private enterprise.

In speaking of Hong Kong Container Port's future role, it is worth mentioning that the composition of our throughput is changing. Emphasis is moving towards Inter-Asia trade, and away from a dependency on US exports. US trade used to account for 40 per cent of our throughput. Now it is down to 35 per cent, whilst Inter-Asia traffic has increased from 22 to 29 per cent. We are therefore seeing the development of a better balance of trade with various regions of the world, with - of course - an increasing element of China trade. MTL's projections indicate that by 1997 Hong Kong will actually be handling

more shipping for China than for Hong Kong itself.

A source of competition which does concern the terminal operators in Kwai Chung is that of the "midstream operators"[5] who load and discharge cargo offshore. The terminal operators have jointly submitted papers to, and had discussions with the Port Development Board[6], which is the government's advisory body, on the relationships between the terminal operators and them, within the industry. While the terminal operators believe competition between all types of cargo handlers is healthy for its development, they believe this competition should be economically on a level playing field.

It seems manifestly unfair to the terminal operators that they have to pay high premiums for the resources they use, while the midstream operators do not. As a result, the midstream operators are able to charge far lower tariffs, in line with their smaller overheads. This will not encourage the terminal operators, or anyone else, to make the large investment needed for the port's further development.

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[5] "Midstream operators" are those small companies which operate barges and lighters for loading and unloading containers from the container vessels in the middle of the sea using moor or anchorage but not proper berth or terminal.

[6] The Port Development Board (PDB) is a non-statutory government body established in April 1990 for assessing port development needs, recommending strategies, coordinating government and private sector planning and acting as listening post for the views of interested parties.

There are other problems that need to be ironed out. Our viability as an entrepôt for China hinges upon the smooth flow of containers into and out of China. At present there is congestion at the border crossings. The main reasons for this are the rules imposed by the Chinese authorities. For example, containers leaving China must exit at the same crossing point by which they arrived. This creates many unproductive moves and considerable planning problems. Ways must be found to create greater flexibility to allow more containers to be transported across the border by barges and other maritime craft, which would be more environmentally-friendly, and cheaper and would help to relieve congestion. If the problems are not solved, delays and congestion will increase, pushing up costs and deterring customers from using the Port of Hong Kong.

To retain its leading edge, the Hong Kong Container Port must succeed in keeping its costs under control. It must increase its productivity. It must constantly update its technology, by example through the introduction of more extensive electronic data interchange (EDI)[7] and other automation to keep the workload and operating expenses down. Most important, a practical marketing plan for the future growth of the company is vital in leading MTL through the coming decades to success.

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[7] Electronic Data Interchange (EDI) is a communication system whereby any message is transmitted, from one party to another party by electronic means.

CHAPTER II

RESEARCH OBJECTIVES AND METHODOLOGY

2.1 Background and Overview

MTL is one of the three container terminal operators in Hong Kong, with 20 years of history and 1,850 employees at present. It occupies three terminals out of the total seven in the Kwai Chung Container Port. In 1991 MTL handled a throughput of 1.57 million TEUs, which was already an over-stressed figure compared to the limited capacity it has. Its throughput volume accounted for about 35% of the market share while it had only about 28% of the facility in the port (Figure 3).

1991 saw an even greater percentage of growth in business than the year before. MTL has experienced over 14% growth last year. Demand for services is much higher than capacity available.

MTL has adopted a long term expansion plan based on the existing growth rate. It acquired in March 1991 the operational right of half of the four-berth Terminal 8 which will be coming on stream in September 1993. It has

Year	Capacity Share			Market Share		
	MTL	HIT	SEALAND	MTL	HIT	SEALAND
1986	33%	51%	16%	40%	45%	14%
1987	33%	51%	16%	41%	45%	14%
1988	35%	50%	16%	42%	44%	14%
1989	37%	51%	11%	38%	48%	14%
1990	28%	63%	9%	36%	50%	14%
1991	28%	63%	9%	35%	54%	11%
*1992	28%	63%	9%	32%	58%	10%
1993	30%	62%	8%	30%	61%	9%
1994	30%	62%	8%	30%	62%	8%
1995	33%	61%	7%	31%	62%	7%
1996	33%	61%	7%	33%	61%	7%
1997	33%	61%	7%	33%	61%	7%

* Figure for 1992 and thereafter are estimated

Figure 3. CAPACITY SHARE AND MARKET SHARE IN KWAI CHUNG PORT

also made a firm decision that it will bid for Terminal 9 which is scheduled to be operational in mid 1995.

This long term policy is formulated on the assumption of a two digit growth rate. Some scenarios - a growth rate of 14%, or a lower figure of 8%, or a still lower figure of 6% - can be investigated. Whatever happens, MTL has to "craft" a range of strategies on how to market the services supplied by the future new terminals.

It is the aim of this project to study the likelihood of various scenarios and identify appropriate marketing strategies for Terminals 8 and 9 in the future.

2.2 Research Objectives

The specific research objectives of the current study are:-

(i) to review the present commercial strategies of MTL,

(ii) to analyze the overall market,

(iii) to project the anticipated demand and supply of the container business in the future,

(iv) to determine the major problem areas faced by MTL,

(v) to access MTL's potential in providing services in the future, and

(vi) to develop marketing strategies for Terminals 8 and 9.

2.3 The Belief

The container handling business in Hong Kong is of a unique nature. The market is a kind of oligopoly, in which there are **only three privately-run** terminal operators dominating the **"supply"** side. They are **MTL**, **HIT** and **Sealand.**

MTL is the earliest established terminal operator in Hong Kong, which ran the first container terminal in 1972. It is a private company with eight shareholders holding its stakes. Currently it possesses three terminals in the Kwai Chung Container Port. These are Terminal 1, Terminal 2 and Terminal 5.

HIT has become the biggest player in the field since it successfully bid for Terminal 7 in 1988. The winning bid enabled HIT to acquire an additional 31.5 hectares of capacity[8]. HIT at present owns Terminal 4, Terminal 6 and Terminal 7, the latter two have sizes doubling the older terminals in Kwai Chung. HIT is also a private local company, with its majority of shares controlled by

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[8] Thompson, Kakoli. "Container Terminals: HIT's Winning Bid Will Change Face of Kwai Chung", ASIAN FINANCE (HONG KONG), Vol: 14, Iss: 5, P. 32-34, May 15, 1988.

Hutchison Whampao Ltd.

Sealand is the smallest terminal operator in Kwai Chung, which owns only Terminal 3. Being an American shipping company operating a dedicated terminal, Sealand only handles vessels of its own company, unlike MTL and HIT which are multi-users terminals.

While Sealand operates one berth mainly for its own use, MTL and HIT both run common-user terminals. These two multi-user terminal operators do compete commercially but not in a major way. On the contrary they are cooperative with each other in some ways. They never enter into price wars, nor do they poach each others' customers.

On the **"demand"** side, the uniqueness is that there is only a handful of customer shipping lines. This small number of customers can -- it is held -- be better served by personal contacts than any sophisticated advertising and promotional tactics. This, plus the fact that demand has long exceeded supply, means that no comprehensive marketing strategies have been devised in the past.

However, with the concept of "quality service" being much in the forefront of thinking today, and the market environment changing dramatically day by day, it seems evident that planning marketing strategies is vital to the future growth of the business. This study is therefore

based on a belief that marketing environmental changes are dramatic and here to stay, and that keener competitive strategising than before is required in order to grab more business.

2.4 Significance of the Research

This research centres on shipping companies and seeks to assess, perhaps for the first time, the attitudes of customers in that industry. Specifically, it will delve into the many factors affecting customer acceptance of MTL's services.

Through the research, it is one of the objectives also to lay the groundwork for further study on specific marketing tactics, such as pricing, which could be more quantitative in nature. As it stands, this study can become a benchmark for more comprehensive follow-up work into specific areas of interest.

2.5 Research Methodology

As stated before, this research aims at developing the marketing strategies for the future container terminal facilities.

Due to the fact that marketing strategies of this unique industry are oriented chiefly at the customer requirements and attitudes, and that the number of customers is quite limited, qualitative research was conducted.

2.5.1 Personal Interviews

In general, the qualitative method of personal interviews is less structured and more intensive than the standard questionnaire-based (quantitative) interview approach, as it requires a longer, more flexible relationship with the respondents to get information that has real depth and richness.

Because the customer base is so small, no sampling plan for conducting interviews was required. The author just interviewed all the chief customers of MTL (Appendix A) with an annual revenue over 40,000 TEU to find out their requirements relative to the terminal services and their definitions of quality services.

Further important interviews were those involving personnel in the marketing and operations departments in MTL (Appendix B).

It is from them that the author obtained insights into the future business growth trend, the potential of the company and the likely developments of MTL's major customers. They have a good grasp of the matter through their visits to the overseas headquarters of the shipping lines several times a year. (It should be noted that the local representatives of these lines may just be operational agents who are not much involved in the realm of marketing.)

2.5.2 Literature Survey

Apart from personal interviews, a literature survey of the past ten years was conducted to cover most of the salient points concerning the subject.

The research was based on the ABI package on CDROM (Compact Disk Memory) from UMI (University Microfilms International), which specializes in book and article abstracts, and which is installed in the University Library of the Chinese University of Hong Kong. The author also utilized the information library in MTL's Public Relations Section. The materials include newspaper clippings, books and magazine articles.

The objective of this survey was to uncover works concerning container handling services, particular those in

Hong Kong, and the development of technical operational systems in the world in recent years.

The results of this literature survey will be discussed in Chapter Three.

CHAPTER III

LITERATURE SURVEY

As a result of a literature search using the ABI package as well as standard library search techniques, not many articles and books on the marketing strategies for the container terminal business were found. Rather there are many articles and news clippings written on the shipping lines' requirements, local throughput projections and future container terminals development. This is probably because container terminal operations is a business of unique nature and it involves only a few operators in the world. This is coupled with the fact that most of the container ports in other countries are government-owned, unlike the one in Hong Kong. Therefore few might bother to explore the marketing strategies for these national ports to which competitive elements might not apply.

3.1 Terminal Capacity

Many line representatives have expressed their worries over running out of terminal capacity in Hong Kong. Mr. Terence Sit, Chairman of the HongKong Liner Association has

urged the government to ensure that port development keep us with cargo increases[9]. He suggested that the government look at the whole supply and demand situation, and warned that Hong Kong was seeing increased competition from other ports in the region like Kaohsiung in Taiwan and in the near future from the neighbouring ports like Shekou, Chi Wan and Yantian in China, which have ambitious expansion plans (Figure 4). Lines would be forced to move to these ports if Hong Kong is not able to cope with the demand.

3.2 Huge rise in Future Throughput

Personnel in the shipping industry all foresee a huge rise in throughput for the coming decade. Maersk Line, MTL's major customer, which handles about 25 of the Far East trade worldwide, regarded 1991 as a better year than 1990 because the market to Europe is extremely strong, and it expects the trans-Pacific market to improve, even though the United States is still in recession. The General Manager of the Transport Department of China Merchant Holdings, Mr. Zhu Dashou is optimistic about future prospects for Hong Kong's port industry[10].

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[9] Wong, Joon San. "Terminal Capacity Worries Liner Chief", SOUTH CHINA MORNING POST, F&SP P. 1, July 19, 1991.

[10] "High Growth Rate of Container Throughput in 1991", SING TAO JIH PAO, January 17, 1992.

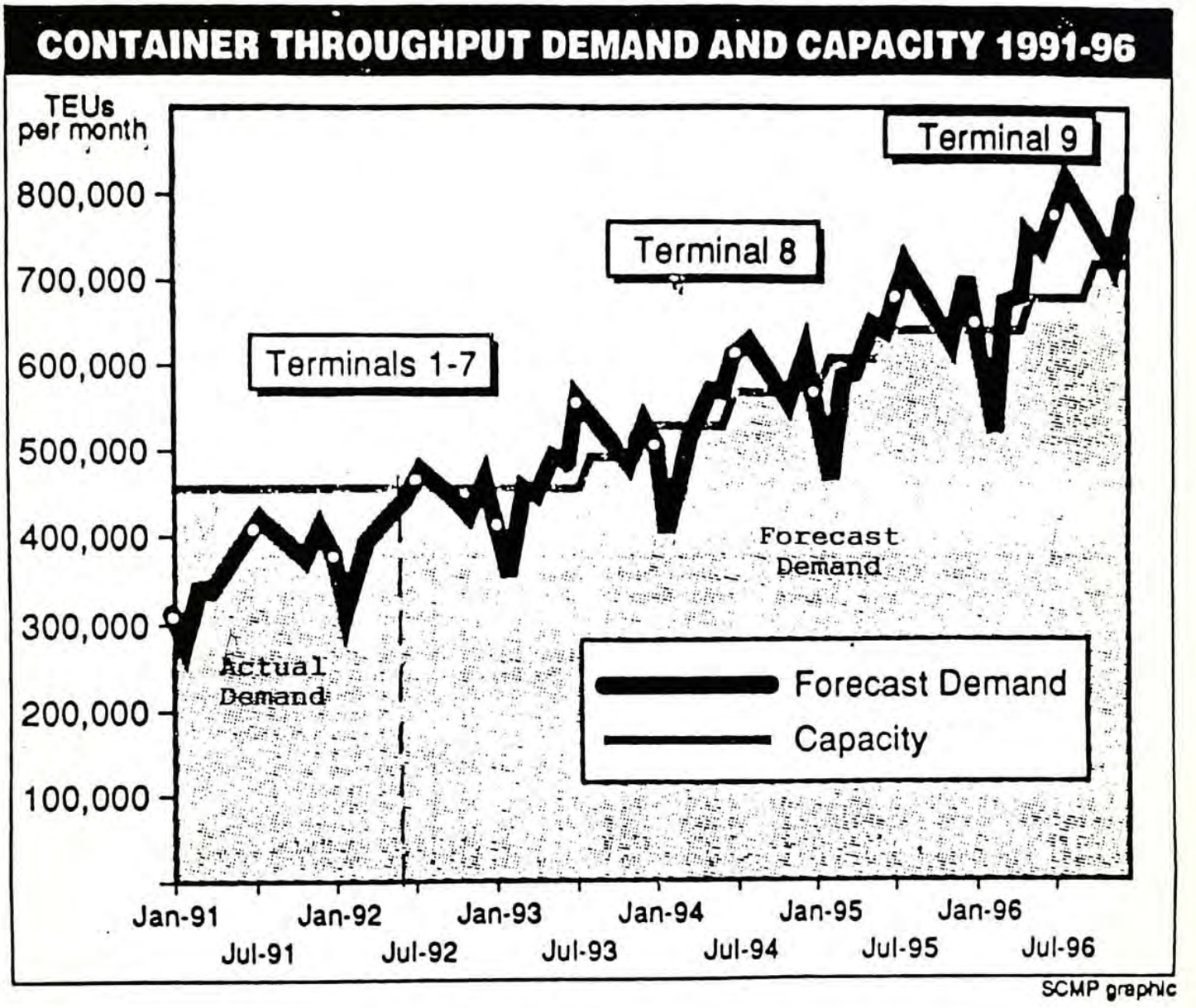

Figure 4. CONTAINER THROUGHPUT DEMAND AND CAPACITY IN 1991-96

3.3 Handling Efficiency

A reporter of The Journal of Commerce, Mark Magnier, when made a comparison between the world's number one and number two ports -- Singapore and Hong Kong, emphasized that the efficiency has been an especially effective marketing tool for container terminals in recent years[11]. The government's determination in boosting up the efficiency through regulations is one of the reasons why Singapore has overridden Hong Kong in the past two years.

Apart from the government's legislative and financial assistance, Singapore is also strengthening its EDI links with various business parties. Its function as a distribution hub has been aided by the speed and simplicity with which inbound and outbound consignments can be cleared more and more quickly because of the rapidly growing EDI links with overseas ports and emerging cargo community systems in other parts of the world[12].

While Hiroshi Takahashi, Senior Managing Director of the Japanese shipping line NYK, still calls Hong Kong "the most efficient port in Asia" despite its congestion, the Executive Vice President of Korea's Hanjin Shipping Co.

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[11] Magnier, Mark. "Major Shipping Lines See Nation As Vital Link to Asian Trade", THE JOURNAL OF COMMERCE, December 1991.

[12] Cox, Nick. "Singapore Plans Further Boost to Infrastructure", CARGONEWS ASIA, November 11, 1991.

Ltd. has remarked that Hong Kong is getting worse and worse. Vessels have to wait one or two days and it is 50% more expensive than Taiwan. Hanjin is keen to develop dedicated facilities at Kaohsiung, while Maersk is expanding its Kaohsiung terminal with a view to switching some of its Hong Kong calls to Taiwan[13].

Gary Gilbert, Vice-president Central Asia of Sea-Land Service, has also recognised the rising demand for quality services. Efficient container terminals, accurate and timely documentation and electronically distributed information are required to meet the needs of the shipping companies[14].

3.4 Tariff

Shipping representatives in Hong Kong have long been expressing their dissatisfaction with the terminal tariffs of the local container port. Due to their low profit margins, the "high" tariff as they consider, puts much pressure on the shipping companies[15]. They worry that this issue will have a negative impact on the local container

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13 " Twin Peaks - The Next Episode", PORT DEVELOPMENT INTERNATIONAL, November 1991.

14 Wong, Joon San. "Improved Service aim of New Group", SOUTH CHINA MORNING POST, March 6, 1992.

15 "Pressure on Shipping Lines by Tariff Adjustment Each Year", CARGO NEWSLETTER, October 1991.

terminal business cause the lines will try to shift their business to other ports in the region[16]. The Managing Director (Hong Kong, Macau and China Trade) of American President Line, Richard Hiller, has already announced his plan to use other ports of lower operation costs such as Guangdong in China to replace Hong Kong[17].

3.5 New Threats

More and more threats have been arising recently to Hong Kong's container terminal business. Besides Singapore and Kaohsiung, the world is watching the progress of the developments in Shekou and Yantian, two new ports springing up around the Pearl River Delta of China, which have attracted international attention from the maritime community due to their ambitious scale and capital investment size[18]. These ports are seen by some analysts as a threat to Hong Kong's pre-eminent port status. Faced with the over-capacity pressure in the container handling facilities here, even some shippers say they would consider going north.

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16 "Shipping Industries Worries about High Tariffs", SING TAO JIH PAO, November 5, 1991.

17 "ATL Plans to Use Guangdong Ports to Replace Hong Kong", ORIENTAL DAILY NEWS, March 5, 1992.

18 "Hong Kong Faces New Threat", LLOYD'S LIST, October 31, 1991.

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8. "Hong Kong Faces New Threat", Lloyd's List, October 31, 1991.

9. "ATL Plans to Use Guangdong Ports to Replace Hong Kong", Oriental Daily News, March 5, 1992.

10. "Twin Peak - The Next Episode", Port Development International, November 1991.

11. "High Growth Rate of Container Throughput in 1991", Sing Tao Jih Pao, January 17, 1992.

12. "Shipping Industries Worries about High Tariffs", Sing Tao Jih Pao, November 5, 1991.

CHAPTER IV

PRESENT MARKETING STRATEGIES

The common goal of any commercial institution is basically oriented towards profit making. Being a private company, MTL also adopts a set of marketing strategies aiming at maximizing profit for the shareholders.

4.1 Mission, Goals and Objectives

Before going into the present marketing strategies, it is helpful to look at MTL's mission, goals and objectives first.

The mission of MTL can be summed up in the following statement:-

"MTL is answerable to the Board and its shareholders whose expectation of MTL is to be a profitable and effective organisation."

In order to accomplish the mission, MTL has identified its overall goals and objectives as below:-

(i) to achieve an acceptable return on

investment;

(ii) to maintain a significant market share, but not at all costs;

(iii) to provide high quality service as recognized by customers and peers in the industry;

(iv) to be a good employer, offering quality working conditions; and

(v) to be a good corporate citizen and a responsible member of Kwai Chung and the Port Community.

The overall goals and objectives of MTL are clearly defined. The strategies presently adopted to achieve these goals and objectives are incorporated in the strategic plan.

4.2 Strategic Plan

The management of MTL has identified, through the strategic planning process, four key result areas in which long-term plans and strategic alternatives need to be evaluated:-

(i) service quality

(ii) tariff policy

(iii) cost structure

(iv) human resources

Marketing strategy will mainly concentrate on the areas of service quality and tariff policy, but to a certain degree, all these four key result areas will be covered.

4.3 Marketing Strategy Review

With the goals, objectives and key result areas in mind, let us evaluate and review the marketing strategies currently adopted by MTL.

4.3.1 Service Quality

To provide high quality service is one of MTL's objectives. The present strategy is to enhance customer services in order to maintain the existing customer base. Since the operating capacity of MTL is almost saturated at present, new customers cannot be entertained. With the projected growth of existing business, MTL's facilities will be fully occupied in 1992. If the completion of the first berth of Terminal 8 is on schedule, the over-capacity situation can be eased in late 1993. Even with the promise of Terminal 8, it must be carefully considered whether or not shipping lines can tolerate the present service level.

It is quite difficult to define what quality service is. Basically, the service level must be acceptable to both shipping lines and MTL. To shipping lines, improving the turnaround time and minimizing the berthing delay time is the service standard. To provide additional features such as berthing priorities, fixed day schedule berthing, and to increase productivity will be the means of improving service quality. To MTL, improving service level doesn't necessarily mean that extra costs are incurred. If MTL can increase productivity and reduce the berthing delay time, more boxes can be handled and more income generated in return. Of course, the marginal revenue and the marginal cost must be weighed, and the constraint of operating capacity, both quay side and land side, must be evaluated.

In order to maintain the customer base and to enhance the service level, MTL has undertaken the following measures:-

(i) Additional facilities

In the long run, MTL must provide sufficient facilities to its customers. With the granting of development rights to Terminal 8 West, two additional berths of 900,000 TEU capacity will be available in late 1993. MTL will therefore be able to keep demand and supply in balance. Based on the throughput projection in Appendix C and Figure 4, and the estimated capacity

utilization in Figure 5, Terminal 8 will be saturated in 1996. Therefore, there must be firm plans for the development of Terminal 9; otherwise MTL will be exposed to the threat of loss of business.

(ii) Operation efficiency

In the short run, MTL must improve its operation efficiency so that more ships and more boxes can be handled with the existing facilities. Quay crane no. 12 was ordered and delivered in response to customer demands for fixed day schedules in the weekends.

In addition, MTL has studied the method of increasing productivity and reducing costs. The change of operation mode in Terminal 8 is one of the obvious examples. In Terminals 1, 2 and 5, a mixed operation of transfer cranes, straddle carriers, and forklifts has been adopted, and in Terminal 8, a rubber-tyred gantry crane has been selected as the operation mode with the aim of increasing productivity and reducing operating costs.

Year	Operating Capacity				Capacity Utilization			
	MTL	HIT	Sealand	Total	MTL	HIT	Sealand	Total
1986	1,035	1,593	500	3,128	87%	64%	64%	71%
1987	1,035	1,593	500	3,128	105%	75%	76%	85%
1988	1,116	1,593	500	3,209	114%	84%	85%	95%
1989	1,633	2,242	500	4,375	78%	72%	92%	77%
1990	1,633	3,658	500	5,791	84%	53%	106%	66%
1991	1,633	3,658	500	5,791	95%	65%	115%	78%
* 1992	1,633	3,658	500	5,791	97%	77%	122%	87%
1993	1,748	3,658	500	5,906	101%	92%	134%	98%
1994	2,013	4,130	500	6,643	99%	95%	145%	100%
1995	2,473	4,602	500	7,575	90%	96%	154%	98%
1996	2,473	4,602	500	7,575	100%	108%	162%	109%
1997	2,473	4,602	500	7,575	111%	121%	172%	121%

Note: All figures are in thousands

* Figures for 1992 and thereafter are estimated

Figure 5. CAPACITY UTILIZATION (TERMINALS 1 - 8)

(iii) Automation

Automation is also one of the measures to improve operation efficiency and provide additional feature to shipping lines. Two computer systems MOTLYS (MTL Yard System) and MOTCOF (MTL Container Freight Station System) have been used for a long time (since 1982), and the computerized ship planning and yard planning systems are under study with the aim of improving the overall efficiency of the work procedures. The development of EDI can be regarded as advanced technology that will facilitate customers, such as Maersk and Zim Line in their own operations.

(iv) Overflow facilities

Overflow is the last resort that MTL can use if in the short run it cannot increase capacity in line with demand. However, it will be more difficult for shipping lines to tolerate the service level, especially the mid-stream operation. If MTL has to use facilities of HIT or Sealand, it will not be profitable for MTL since it will incur a higher cost than working in MTL itself. Therefore, overflow can only be regarded as a temporary measure.

4.3.2 Tariff Policy

The tariff policy of MTL can be regarded as the pricing strategy to achieve a reasonable return on investment. MTL's existing tariff system is a benchmark tariff, i.e. standard tariff for all shipping lines irrespective of throughput. To the shareholder lines[19] and certain big customers, concession rate is applied. It should be noted that the tariff is reviewed annually, in January. Negotiations with shipping lines on tariff increases are becoming more and more difficult. The reasons are that:-

(i) Lines' ability to pass on the incremental cost to their own customers is inhibited by the intensive competition in their market. Therefore, they are reluctant to accept the tariff increases even though the impact on freight revenue is minimal. Besides, lines believe that the longer time it takes to bargain with MTL, the lower the tariff increase will be.

(ii) Benchmark tariff negotiations are traditionally held with the big customer lines, such as P&O and Maersk who are both the shareholders and users of MTL. Their

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[19] The Peninsular and Oriental Steam Navigation Company Limited (P&O) and Maersk Line are both the shareholders and users of MTL.

participation in the benchmark tariff negotiation will put the credibility in doubt. Other shipping lines are suspicious of the increases accepted by these two lines.

MTL's major consideration is to secure a higher box rate[20], as the box rate generates approximately 80% of the total operating income. The objective is to set up a constant formula which will be acceptable to the shipping lines so that negotiations can be simplified. Based on past experience, an increase in line with the inflation rate is not acceptable to the lines; some lines even request a zero increase. However, it is very important to obtain an increase based on inflation level, even though such an increase may not fully cover for MTL the actual increases in operating costs.

Besides, MTL has tried to develop a tariff strategy designed to reflect the changing pattern of its business. The introduction of a 45' box rate is one example, and a

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[20] "Box rate" refers to a standard tariff for a standard package of services. It applies to all customer lines.

differential for non-PRC transhipment containers as a mean of increasing the rates is another.

In summary, MTL's tariff strategy is to expand our sources of income and maintain as competitive a position as possible.

4.3.3 Market Share

To maintain the market share is one of MTL objectives. MTL's share in Kwai Chung Port is 35% in 1991. However, with the projection shown in Figure 6, it is revealed that MTL's market share will shrink from 40% in 1986 to 30% in 1997. The shrinking of market share is due to the fact that expansion of capacity is limited by the availability of facilities. MTL is faced with an under-capacity situation, while HIT has spare capacity. The outcome is that new business will be absorbed by HIT.

However, MTL's strategy is to maintain existing customer base. MTL does not compete with other terminal operators. **The particular market segment MTL strives for is the one of quality customers with big potential.** The performances of shipping lines are closely monitored, and MTL will plan for additional facilities to cater for their growth. The performances of major shipping lines from 1986

Year	Kwai Chung Port			Hong Kong Port		
	MTL	HIT	Sealand	MTL	HIT	Sealand
1986	40%	45%	14%	32%	37%	12%
1987	41%	45%	14%	31%	35%	11%
1988	42%	44%	14%	32%	33%	11%
1989	38%	48%	14%	29%	36%	10%
1990	36%	50%	14%	27%	38%	10%
1991	35%	53%	13%	26%	40%	10%
*1992	32%	56%	12%	24%	42%	9%
1993	31%	58%	12%	23%	44%	9%
1994	30%	59%	11%	23%	45%	8%
1995	30%	60%	10%	23%	45%	8%
1996	30%	60%	10%	23%	45%	7%
1997	30%	61%	9%	23%	46%	7%

* Figures for 1992 and thereafter are estimated

Figure 6. MARKET SHARE

to 1990 are shown in Figures 7 and 8 for reference.

4.3.4. Customer Relationship

MTL's strategy is to maintain a long-term relationship with its customers. Its golden rule is "be honest with our customers". It will not agree with the lines to something it cannot afford; it just tells them the truth. Overflows in 1988 before the acquiring of Terminal 2 can be cited as an example. Lines knew that MTL's capacity in that year could not meet their demands, and that Terminal 2 would only be available in early 1989. They accepted the need to overflow their boxes to either mid-stream operators or HIT. In return, whenever facilities are available, MTL tries its best to fulfil the requests of the shipping lines.

In another sphere of customer relations, MTL's relationship with its PRC business associates needs to be more actively developed. The reasons are that:-

(i) Its PRC-related shipments are growing rapidly. In 1990, it accounted for 12% of MTL's total container throughput. The ability of the lines to capture efficiently their share of the PRC trade through Hong Kong is therefore vital and an area where MTL can play an effective role.

						(-------- Change In --------)			
	1986	1987	1988	1989	1990	1987	1988	1989	1990
1. TEU HANDLED									
Maersk	353,152	415,025	498,258	466,621	462,729	18%	20%	-6%	-1%
ZIM	69,787	90,693	93,570	111,832	123,708	30%	3%	20%	11%
NYK	35,299	64,709	94,380	96,580	121,853	83%	46%	2%	26%
KLL	50,034	79,362	102,909	107,875	111,775	59%	30%	5%	4%
P&O	64,654	77,214	81,916	81,776	86,923	19%	6%	-0%	6%
HMM	14,009	33,409	49,899	73,018	84,418	138%	49%	46%	16%
MOL	45,979	73,856	81,217	54,252	59,076	61%	10%	-33%	9%
HLC	25,518	31,670	39,157	40,486	44,403	24%	24%	3%	10%
Others	248,739	237,820	249,920	242,535	277,889	-4%	5%	-3%	15%
TOTAL	907,171	1,103,758	1,291,226	1,274,975	1,372,774	22%	17%	-1%	8%
2. LOCAL TEU									
Maersk	166,090	188,593	207,892	198,511	209,822	14%	10%	-5%	6%
NYK	33,035	59,429	82,783	81,448	99,838	80%	39%	-2%	23%
KLL	46,980	67,674	89,055	99,034	97,639	44%	32%	11%	-1%
HMM	13,941	33,405	47,255	70,010	81,740	140%	41%	48%	17%
ZIM	40,533	54,953	58,696	66,662	77,716	36%	7%	14%	17%
P&O	57,722	66,910	67,393	71,828	76,577	16%	1%	7%	7%
MOL	40,725	58,350	65,209	51,160	54,461	43%	12%	-22%	6%
HLC	23,096	30,182	36,436	37,856	41,037	31%	21%	4%	8%
Others	214,591	201,312	209,908	218,990	254,829	-6%	4%	4%	16%
TOTAL	636,713	760,808	864,627	895,499	993,659	19%	14%	4%	11%
3. TRANSHIPMENT TEU									
Maersk	187,062	226,432	290,366	268,110	252,907	21%	28%	-8%	-6%
ZIM	29,254	35,740	34,874	45,170	45,992	22%	-2%	30%	2%
NYK	2,264	5,280	11,597	15,132	22,015	133%	120%	30%	45%
KLL	3,054	11,688	13,854	8,841	14,136	283%	19%	-36%	60%
P&O	6,932	10,304	14,523	9,948	10,346	49%	41%	-32%	4%
MOL	5,254	15,506	16,008	3,092	4,615	195%	3%	-81%	49%
HLC	2,422	1,488	2,721	2,630	3,366	-39%	83%	-3%	28%
HMM	68	4	2,644	3,008	2,678	-94%	n.a.	14%	-11%
Others	34,148	36,508	40,012	23,545	23,060	7%	10%	-41%	-2%
TOTAL	270,458	342,950	426,599	379,476	379,115	27%	24%	-11%	-0%

Figure 7. PERFORMANCE OF MAJOR SHIPPING LINES FROM YEAR 1986 TO 1990

	1986	1987	1988	1989	1990
1. PERCENTAGE TO TOTAL ATEUS					
Maersk	39%	38%	39%	37%	34%
ZIM	8%	8%	7%	9%	9%
NYK	4%	6%	7%	8%	9%
KLL	6%	7%	8%	8%	8%
P&O	7%	7%	6%	6%	6%
HMM	2%	3%	4%	6%	6%
MOL	5%	7%	6%	4%	4%
HLC	3%	3%	3%	3%	3%
Others	27%	22%	19%	19%	20%
TOTAL	100%	100%	100%	100%	100%
2. PERCENTAGE TO LOCAL ATEUS					
Maersk	26%	25%	24%	22%	21%
NYK	5%	8%	10%	9%	10%
KLL	7%	9%	10%	11%	10%
HMM	2%	4%	5%	8%	8%
ZIM	6%	7%	7%	7%	8%
P&O	9%	9%	8%	8%	8%
MOL	6%	8%	8%	6%	5%
HLC	4%	4%	4%	4%	4%
Others	34%	26%	24%	24%	26%
TOTAL	100%	100%	100%	100%	100%
3. PERCENTAGE TO TRANSHIPMENT ATEUS					
Maersk	69%	66%	68%	71%	67%
ZIM	11%	10%	8%	12%	12%
NYK	1%	2%	3%	4%	6%
KLL	1%	3%	3%	2%	4%
P&O	3%	3%	3%	3%	3%
MOL	2%	5%	4%	1%	1%
HLC	1%	0%	1%	1%	1%
HMM	0%	0%	1%	1%	1%
Others	13%	11%	9%	6%	6%
TOTAL	100%	100%	100%	100%	100%

Figure 8. PERFORMANCE OF MAJOR SHIPPING LINES SHARE OF TEUS HANDLED BY MTL FROM YEAR 1986 TO 1990

(ii) Due to obvious political reasons, it is foreseeable that the influence of China will become more significant with time. The development of port facilities requires heavy capital outlays, and the participation of China-related investors will no doubt minimise the risk of investment and encourage existing shareholders to invest more in this business.

4.3.5 Other Business Opportunities

Even though MTL is almost a pure terminal operator, it will not restrict itself only to the existing business. If there are other business opportunities related to this industry that seem worthy of investing, it will carefully study the feasibility of these projects and evaluate whether they can meet with its targeted return on investment. The building of Warehouse Phase I in October 1980 and Phase II[21] in August 1991 are some projects to diversify its business to other industries, and it will continue to seek other business opportunities whenever available.

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[21] The main usage of MTL's Warehouse Phases I and II are for leasing out to tenants for office and storage use. MTL only retains the ground and first floors for its Container Freight Station operations.

4.3.6 Company Image

MTL is aware that company image is an intangible asset of the company. Therefore, one of MTL's marketing strategies is to build up our image as a good corporate citizen and also a responsible member of Kwai Chung and the Port Community.

In this area, MTL actively participates in environmental protection activities[22], such as re-cycling of waste paper, and the anti-pollution campaign. In the long run, it is very important to establish the company image because it can provide to the public a good perception of the company, and communication with other parties such as Government, pressure groups, etc. will be easier. It is also essential to project an image of MTL as being a responsible company and a good corporate citizen so to increase the confidence of its customers towards the company.

All these marketing strategies of MTL are currently in use. Whether they can be implemented effectively and efficiently will depend on the tactics used to execute them, and on the influence of external market conditions.

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[22] MTL was one of the member companies of the Private Sector Committee on the Environment which was established in late 1988. The members of this committee help improve the environment by contributing financially to the Committee or contribute expertise/services or both.

CHAPTER V

SUMMARY OF PRINCIPAL FINDINGS

5.1 Research Results and Analysis

After all the interviews with the shipping companies, their views can be summarized as follows:-

(i) Berthing space availability is most crucial to the efficient operations of the shipping lines. Queuing up for berths might cause the lines a chain delay in sailing schedule and hence sharply increase their operating costs.

(ii) A lower tariff of terminal services would obviously be most welcome to the lines. In the highly competitive shipping business, profits can be easily be eaten up by over-tonnage provision, high capital and operating costs[23]. Tight control on expenditure is therefore essential. Thus

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[23] A look into the 1989 financial figures of Hapag Lloyd, a German shipping company, tells a story. Although its container volumes and revenues rose by 13% and 8% respectively, it had a deficit of DM20 million. Significant decline in rates and 12% increase in operating costs were the reasons for the loss.

shipping lines prefer terminals with a competitive rate, but with adequate berthing space to avoid waiting time and extra maintenance cost.

(iii) Adoption of advanced technology by the terminal to help shipping lines gear up their competitive edge is also essential. Efficiency of the handling equipment and in information exchange not only benefits the terminals, but also the shipping lines for attracting their own customers.

Based on the above analysis, incorporated with the ideas from the MTL management (also through interviews), marketing strategies for Terminals 8 and 9 are therefore recommended in the following sections of this chapter.

5.2 Marketing Objectives

The throughput figure of 1.56 million TEU handled by MTL in 1991 represented 34.5% of market share in the Kwai Chung Container Port, although it has only 28% of handling capacity in the area (Figure 9).

Year	MTL	HIT	SEALAND	TOTAL
1991	1.6 (28%)	3.5 (61.5%)	0.6 (10.5%)	5.7 (100%)
mid 1993	2.5 (33%)	4.4 (59%)	0.6 (8%)	7.5 (100%)
mid 1995	3.4 (36.5%)	5.3 (57%)	0.6 (6.5%)	9.3 (100%)

Figure 9. HANDLING CAPACITY IN KWAI CHUNG IN MILLION TEUS

In order to fill up the additional capacity offered by the future terminals No. 8 and 9, MTL must formulate good marketing strategies for attracting new business. While the local rival HIT will occupy a predominantly advantageous position with its much more rapid expansion in berthing space, it would be unrealistic for MTL to set an over-ambitious marketing objective. There are, however, opportunities for MTL to increase its business volume by maximizing the use of its resources, catering to extra needs of its customers, adopting a more competitive pricing strategy and improving the service quality, to expand their services and gain extra revenue. The following objectives are proposed :-

(i) Maintain the existing market share of 35% for the two years before and after Terminal 8 coming on-stream in mid 1993.

(ii) Increase the market share to 40% in 1994.

(iii) Increase the market share to 45% a year after Terminal 9 becomes operational in mid 1995.

(iv) Increase revenue by providing services related to container handling, e.g. land transportation, in-terminal packing / unpacking services and godown/ warehouse services.

These related services, besides creating new business opportunities, also aid as attractive "ancillary services"

catering for the convenience of customers and consignees. These services can also decrease the hazards encountered by the customers such as missing the ship because of distant travel from warehouse to terminal and traffic congestion.

5.3 Maintain Existing Customers and Market Share

Based on the growth trend in throughput in Kwai Chung and the Stream during the past five years at average figures of 14% and 20% respectively, all terminals in Kwai Chung will still be very congested in the coming years. It is very likely MTL could maintain the existing customers in the coming two years.

The expected shift of transhipment business of MTL's major customer, Maersk Line, away from Hong Kong to its new terminal in Kaohsiung will not necessarily be a dire negative, indeed it may be considered as a means of boosting the cost effectiveness of MTL's business since it will reduce the overflow from the terminals in the previous years.

Although the Port of Singapore is developing rapidly, its location is far away from Hong Kong. It is geographically incompatible with Hong Kong and it plays a different role from Hong Kong Port in the Far East shipping routing.

As to the ports in Southern China, they are not likely to affect the role of Hong Kong Port in the near future. In about five years time, Hong Kong will be returned to China as one of the Special Economic Zones. The role of Hong Kong Port will of course depend very much on the Chinese government's port policy. As port facilities have already been well-established here, together with the advantageous geographical location supported by the huge industrial base and equipped with modern communication facilities, the importance of Hong Kong Port is expected to be maintained after 1997. When considering the Pearl River Delta as a whole rather than Hong Kong separately, ports in the region will serve as feeder ports to support rather than compete with Hong Kong Port in this decade.

It is therefore expected that before the inception of Terminal 8, MTL would not lose much of its business either to local rivals or to other ports in the nearby countries. MTL's strategy lies on how to maintain a service level with good quality for its existing core customers (Appendix E).

5.4 Evaluate Existing Customer Base

Apart from maintaining a good service level, individual customers should be closely monitored. Their business growth and new developments have to be considered, their potential to explore new services should not be

neglected, and their new requirements have to be attended to.

MTL should try its very best to cater for individual needs, like dredging the seabed to provide deeper draught for the 4th generation post-Panamax vessels which at present can not berth at MTL because of its big size and deep draught requirement. Business represented by these vessels will easily be lost to a competitor who possesses terminals with deeper draught if MTL does not take any action at all.

5.5 Increase Yard Capacity

Ability to increase the yard capacity is essential in providing quality service as well as attracting new customers. There are several ways to increase yard capacity:-

(i) Acquire off-site depots and terminals

Efforts should be made to acquire off-site depots in the vicinity of the terminals. These depots will provide more space for storage of containers and hence increase in capacity of the company.

Off-site terminals such as those in Shekou and Shenzhen can be leased as backup

terminal facilities. As a large portion of containers coming to and from Hong Kong originate from China, import and export delivery and collection of these boxes can be extended to ports in these areas by barges.

Shekou is particularly favourable for this purpose because of its approaching fairway passing through Hong Kong water, non-existence of silting, low labour costs and a better competitive environment.

This will therefore not only be a cost effective measure to MTL but also a favourable scheme to its customers. However, its feasibility all depends on Chinese government's port policy and much time and effort will be required to "engineer" its success.

(ii) High Density Container Handling System

One way to increase the terminal throughput is to increase the stacking capacity while at the same time maintain a quality service level. As the terminal is always subject to land constraints in Hong Kong, the only solution is to increase the space

utilization by using higher stacking machines / systems. In the medium term, machinery which can stack up more tiers of box, such as the Rubber-tyred Gantry Crane of 4-high[24] should be purchased to replace the existing Straddle Carrier of 3-high.

For the longer term, there are other even higher stacking structures / machines such as computainer, superstacker, silo, etc. available for consideration.

To enable the above to work and be able to maintain the service level at the same time, a certain degree of automation is required. A more automated system will also help sharpen the competitive edge of MTL against its local and foreign competitors, as well as keep pace with the international technology advancement.

5.6 Information Technology

Advanced information technology should be developed to speed up the information exchange process. This is

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[24] "4-high" refers to those machinery which can stack up four tiers of containers.

particularly helpful in increasing the efficiency and saving manpower in MTL, since a large amount of paper documents are generated each day in the company for operations and record purposes. Many of these papers have to be transmitted to the shipping customers as well as for interchanging necessary information. Hence developing information technology will not only beneficial to MTL itself but also its customers.

MTL has already started developing Electronic Data Interchange (EDI) over the last three years[25]. The objective is to link up the computer networks of shipping lines with that of MTL in order to speed up information exchange between the both parties. However only Zim Line, an Israeli customer, has devoted full support to this development and has begun implementation for over a year. Other lines are still studying the technology with reservations. Progress has been slow. The reasons for the lines being not ready for this technology are the requirement for changing a large extent of their existing computer programmes and even operations systems, involving heavy capital expenditures. Much effort has to be put in promoting EDI's benefits and its long term cost saving so to quicken the development.

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[25] MTL is one of the founders among firms in the consortium which funded the Tradelink Document Services Ltd. to pioneer the development of EDI in Hong Kong.

Apart from EDI, incorporation of the Just-In-Time concept in the information exchange process is worth a study. JIT will surely help further enhance the work efficiency and minimize the inventory level in the terminal.

5.7 Competitive Pricing

By adopting a combination of various pricing strategies for different services, it is hoped to retain the existing customers and to attract new customers.

For existing berthing and cargo handling services, the present price will be maintained as it is already competitive when compared to its competitors.

A differentiated tariff structure can be adopted to encourage weekday berthing. Weekend tariff rates can be priced against HIT since at weekends, berthings always overflow and saturate all terminal facilities. On the other hand, a lower rate specially for weekday berthing will help attract shipping lines with unusual routings or to encourage them to alter their usual routings to take advantage of the weekday tariff. Lower rates can also attract those small shipping companies, which at present are using mid-stream operations for its low cost, to approach the terminal.

Volume discount is another method to attract business especially from those big shipping companies who have bigger vessels calling at Hong Kong. This will on one hand attract more business, and on the other increase the operations efficiency since the average turn-around time for fewer big vessels are shorter than for more small vessels due to the fact that less time will be taken for vessels' berthing and departing the terminal.

Other concessions can also be granted to major customers by the same token as volume discount. However, all these measures have to be taken carefully in order not to antagonize other customers.

Another area that could be looked into for pricing below the market are those shipping services in the northeast Asian region. Demand for this so-called Intra-Asian or coastal services has been rapidly increasing in the recent years. This Intra-Asian trade had risen by 13% in 1991 over the previous year, echoing the growing economic strength of the region. Opportunities apparently lie in whether the terminal operators can be nimble enough to catch this expanding business. A lower coastal rate specially designed for these Intra-Asian services can be implemented to attract those shipping customers who are getting involved in this trend.

5.8 Cost Strategy

Just adopting a lower pricing strategy will do no good to the company profits. An effective cost strategy must also be implemented at the same time so as to maintain, if not increase, the profit level of the company. Operating costs have to be contained, manning has to be re-evaluated and working procedures have to be streamlined so as to reduce expenditure.

CHAPTER VI

CONCLUSIONS AND IMPLICATIONS

Strategies recommended in the previous chapter are strategies not only applying to Terminals 8 and 9, but in fact to the whole company. The two future terminals will not be separate entities from the existing terminals. Operations will be incorporated together to obtain the maximum efficiency.

6.1 Control

While only time will tell the real practicality of these suggested marketing means, it is vital to note before their implementation that their success lies in the existence of an effective control measure. Control in both the expenditures and the results are important. The basic principle for this marketing plan is not to incur too heavy a cost as to have any negative impacts on the pricing strategies put forward.

To monitor results, comparison between the expected performance with the actual performance at certain pre-designed periods, say every three months, is required to

allow necessary corrective actions to be taken in time. For instance, if after three months, the growth of throughput is running at a rate lower than the one required to achieve the target market share, the marketing mix and marketing plans should then be reassessed by asking questions such as : Is the price still too high? Is the efficiency too low? After the answers are obtained, strategies might have to be adjusted to suit the real situation. It is through a process of evaluate, adjust, re-evaluate and re-adjust that the strategies will finally come close to reality.

6.2 Uncertainties

No matter how buttoned-down any plan may be, there are some uncertainties which are out of the control of any company. The marketing plan suggested in this report is no exception.

(i) Legislative Uncertainty

Although the government has finally confirmed the location of Terminal 9 on South East Tsing Yi, it has not decided in what way the terminal facility will be granted. There are of course chances that MTL will not be able to obtain the operation right of Terminal 9, whether it is granted by public open tender or private treaty. If

MTL fails to do so, it will not have sufficient capacity to achieve the targeted marketing strategies.

(ii) Political Uncertainty

With 1997 approaching shortly, political uncertainty presents the number one question mark to the company. Although both the Chinese and British governments have striven to promote stability and prosperity in the territory, there are still chances of political unrest or drastic changes in policy when one decision-maker is changed for another.

(iii) Environmental Uncertainty

The environmental uncertainty here mainly refers to the availability of additional land for off-site depots in the future years, since land is so scarce in Hong Kong. Every piece of land when available will be competed for various uses. This is especially true in Kwai Chung area where land supply is always a problem to a variety of industries including container related back-up services, factories, residential building and public utilities. The terminal might not be able or have the priority in

obtaining land for increasing capacity.

> The increasing concern of environmental problems also poses some threats to the further development around the terminals. Community people are very vocal these days in expressing their objection against building of container terminal facilities in the vicinity of residential areas, lest their living environment be worsened by the various nuisances produced by the industry. These protests will more or less hinder the business development of the terminal.

While some of these uncertainties can be minimized through lobbying with the government and building better relations with the community, some are really out of the control of any terminal operator. However, MTL should keep a close watch at the dynamic environment around and be flexible enough to adjust its strategies whenever necessary.

APPENDIX A

LIST OF INTERVIEWEES (SHIPPING LINES)

1. Mr. A. Chan
   - Operations Manager of Yang Ming Line

2. Mr. A. Chu
   - Operations Manager of Swire Shipping (Agencies) Ltd.
     Agents for: Asia Australia Container Services
     Hyundai Merchant Marine Co. Ltd.
     P & O Containers

3. Mr. K. Chan
   - Deputy General Manager of NYK Line (HK) Ltd.

4. Mr. A. Leung
   - Operations Manager of Hapag Lloyd

5. Mr. B. Li
   - Operations Manager of Jardine Shipping (Agencies) Ltd.
     Agents for: Australia National Line
     South African Marine Corp.
     United Arab Shipping Co.

6. Mr. P. Ng
   - Deputy General Manager of The East Asiatic Co. (HK) Ltd.

7. Mr. T. Shiu
   - Senior Manager of Mitsui O.S.K. Lines (HK) Ltd.

8. Mr. S. Wu
   - Operations Manager of Maersk Line (HK) Ltd.

9. Mr. W. Yiu
   - Asst. General Manager of K Line (HK) Ltd.

APPENDIX B

LIST OF INTERVIEWEES
(MTL PERSONNEL)

1. Mr. C.Y. Ho
   - Deputy General Manager of Terminal Operations Division

2. Mr. Bernard Wong
   - Commercial Manager

3. Mr. Raymond Kwong
   - Customer Services Manager

APPENDIX C
NOTES & MAJOR ASSUMPTIONS

1. Throughput projection is based on a regression analysis of annual throughput of Hong Kong and the corresponding Hong Kong Gross Domestic Product (GDP) for the last twelve years from 1979 to 1990. Graph A represents the relationship of GDP with H.K. annual throughput and Graph B shows the line of best fit between these two indicators.

2. The estimated GDP figures from 1991 to 1997 are extracted from the following sources:-
   a. Year 1991 to 1995 - latest estimates from the 3rd quarter 1991 of the Global Forecasting Service of Business International (Table A).
   b. Year 1996 to 1997 - based on latest 5-year moving average of GDP growth.

3. An adjustment is made for year 1992 due to the fact that Maersk Line will transfer approximately 210,000 ATEUS to Kaohsiung, Taiwan. As a result, Hong Kong Port will suffer a loss of 210,000 ATEUs in 1992, and the loss is assumed to be fully absorbed by MTL.

4. It assumed that during the projection period, there will not be any overwhelming changes in global economic and political conditions.

5. Terminal facilities in Hong Kong can cope with the anticipated demand. Each terminal operator will maintain their market share up to their workable capacity, and overflows are allowed amongst terminals.

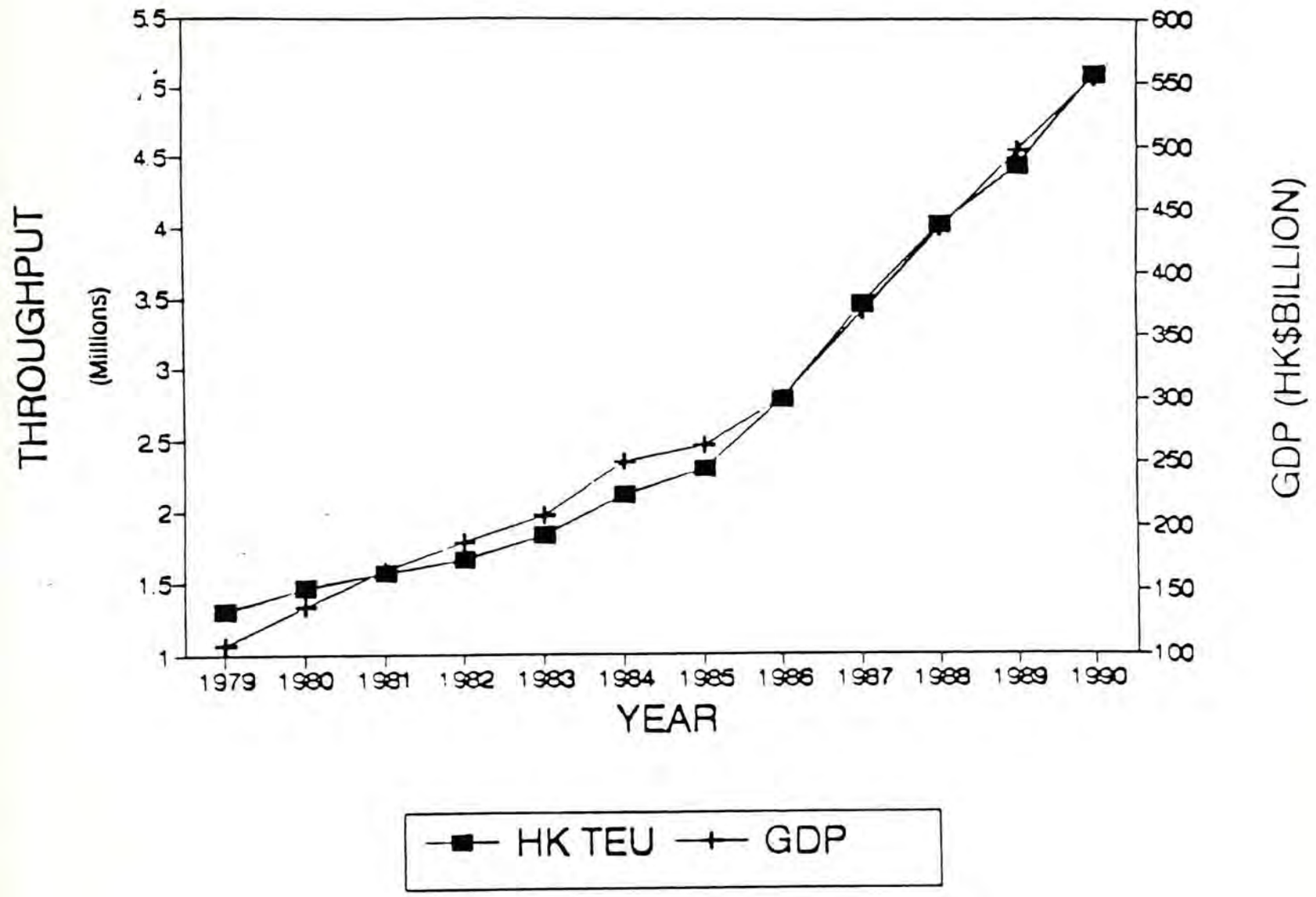
6. Based on the above assumptions, table and figures are projected as follows:-

Table B states the estimated throughput handled by Hong Kong Port, Kwai Chung Port, mid-stream and the three terminal operators, MTL, HIT and Sea-Land.

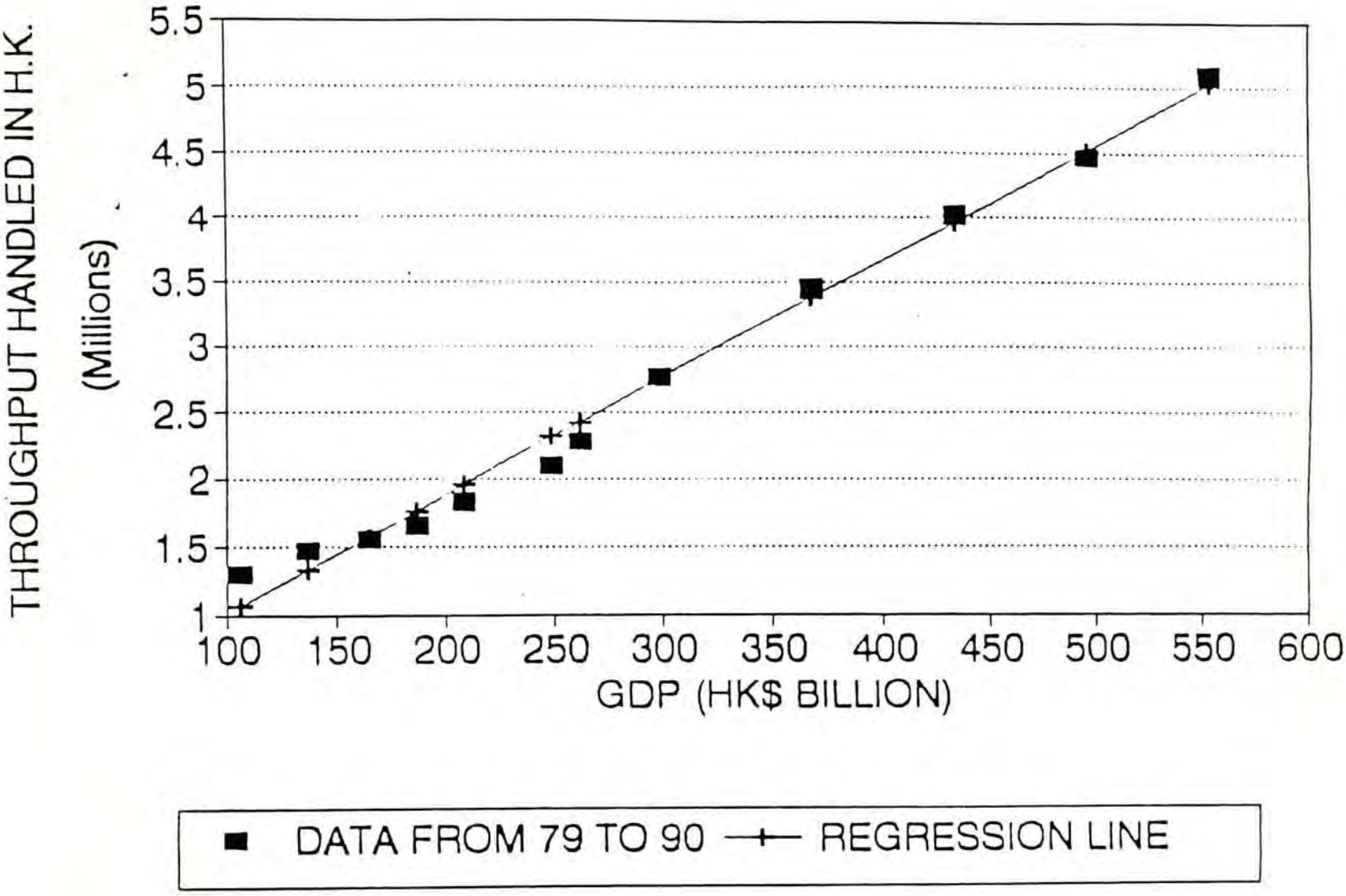
Figure 3 shows the estimated capacity share and the estimated market share of MTL, HIT and Sea-Land. A corresponding revised market share is worked out assuming that once the operating capacity is saturated, excess overflows will be directed to other terminal facilities. If Terminal 9 is not assumed, container terminal facilities of Kwai Chung Port will be filled up in year 1996.

Figure 5 presents the estimated operating capacity of the three terminal operators, up to Terminal 8 only, and the projected utilization rate. If the utilization rate is over 100%, overflows to other facilities are assumed.

Figure 6 is the estimated market share of the three terminal operators to Kwai Chung Port and Hong Kong Port respectively.



GRAPH A HONG KONG THROUGHPUT AND GROSS DOMESTIC PRODUCT FROM 1979 TO 1990



GRAPH B REGRESSION ANALYSIS ON HONG KONG GROSS DOMESTIC PRODUCT AND THROUGHPUT

Real growth (% p.a.)	1990	1991	1992	1993	1994	1995
GDP	2.4	3.6	6.2	4.8	3.6	2.8
Private consumption	4.2	4.5	7.5	6.0	4.5	3.0
Government consumption	7.6	6.0	6.0	5.5	5.0	4.5
Gross fixed investiment	6.4	7.0	10.0	6.3	4.6	4.0
Exports	8.8	15.3	15.2	13.3	9.8	6.9
Imports	11.2	16.9	16.7	13.6	9.8	7.0
Change in stocks (% of GDP)	1.7	2.1	2.8	2.2	1.3	0.9
Population and Income						
GDP (US$ billion)	70.1	81.2	94.4	109.8	125.1	140.2
Population (million)	5.8	5.8	5.9	5.9	5.9	5.9
GDP per head (US$ '000)	12.1	13.9	16.1	18.7	21.3	23.8
Inflation (% p.a.)						
Consumer prices	9.8	12.0	9.5	11.0	10.0	9.0
Average wages in manufacturing (HK$ per day)	161.7	182.7	203.7	230.2	254.2	278.5
Financial indicators						
Exchange rate (HK$ per US$)	7.8	7.8	7.8	7.8	7.8	7.8
Commercial bank prime rate (yearend, %)	10.0	8.5	9.0	9.5	8.5	8.5
External trade (US$ billion)						
Merchandise exports	82.2	98.7	116.5	141.7	162.5	180.3
Merchandise imports	-82.8	-101.0	-120.3	-145.0	-165.4	-183.2
Trade balance *	-0.7	-2.3	-3.8	-3.3	-2.9	-2.9
Services exports	13.8	15.6	17.9	20.7	22.8	24.5
Services imports	-9.3	-10.9	-12.9	-14.5	-16.1	-17.5
Services balance *	4.5	4.7	5.0	6.2	6.7	7.0
Goods & services balance *	3.8	2.4	1.2	2.9	3.8	4.1
as % of GDP	5.4	3.0	1.3	2.6	3.0	2.9
Foreign indebtedness						
Medium & long-term debt						
Total (US$ billion)	5.2	5.4	5.7	6.0	6.3	6.6
Debt service ratio (%)	1.8	1.5	1.4	1.3	1.2	1.1

* Totals may not add due to rounding

TABLE A HONG KONG GROSS DOMESTIC PRODUCT FORECAST

Year	Throughput ('000 TEU)						Change In %					
	HK Port	# KC Port	Mid Stream	MTL	HIT	Sealand	HK Port	KC Port	Mid S.	MTL	HIT	Sea-land
1986	2,774	2,189	511	897	1,014	321	21%	16%	30%	19%	18%	14%
1987	3,457	2,614	780	1,088	1,199	381	25%	19%	53%	21%	18%	19%
1988	4,033	3,002	950	1,275	1,345	424	17%	15%	22%	17%	12%	11%
1989	4,464	3,317	1,067	1,276	1,616	461	11%	10%	12%	0%	20%	9%
1990	5,101	3,831	1,198	1,371	1,930	530	14%	15%	12%	7%	19%	15%
1991	6,015	4,508	1,433	1,555	2,378	575	18%	18%	20%	13%	23%	8%
* 1992	6,724	5,015	1,634	1,583	2,825	608	12%	11%	14%	2%	19%	6%
1993	7,738	5,809	1,855	1,773	3,368	669	15%	16%	14%	12%	19%	10%
1994	8,791	6,640	2,078	1,986	3,928	726	14%	14%	12%	12%	17%	9%
1995	9,798	7,400	2,327	2,213	4,418	769	11%	11%	12%	11%	12%	6%
1996	10,898	8,224	2,606	2,462	4,951	811	11%	11%	12%	11%	12%	6%
1997	12,175	9,187	2,919	2,750	5,576	861	12%	12%	12%	12%	13%	6%

Kwai Chung Container Port

* Figures for 1992 and thereafter are estimated

TABLE B THROUGHPUT HANDLED IN HONG KONG

APPENDIX D

1. Performance of terminal operators in 1990

	MTL	HIT	Sealand
TEU handled (thousands)	1,371	1,930	530
Quay length (metres)	1,082	3,292	305
Area (hectares)	52	89	17
Stacking capacity (TEU)	26,497	55,770	5,232
a. TEU per quay length	1,267	586	1,738
b. TEU per area	26,365	21,685	31,176
c. TEU per stacking capacity	51.7	34.6	101.3

2. MTL performance indicators

	1988	1989	1990
Operational Statistics			
a. TEU handled including overflows (thousands)	1,275	1,276	1,371
b. TEU handled in MTL (thousands)	1,172	1,269	1,371
c. Overflows (thousands)	103	7	-
d. Quay length (metres)	777	1,082	1,082
e. Area (hectares)	42	51	52
f. Stacking capacity (TEU)	20,630	26,011	26,497
g. No. of quay cranes	8	10	11
h. No. of movements excluding HIT & mid-stream overflows (thousands)	820	876	931
i. Ratio of 20' box to 40' box	1.374	1.247	1.137

3. Performance indicators

a. TEU per quay length	1,509	1,172	1,267
b. TEU per area	27,909	24,873	26,370
c. TEU per quay cranes	145,069	129,046	124,660
d. TEU per stacking capacity	56.8	48.8	51.8
e. Container moves per crane	101,508	89,076	84,596
f. Berth utilization			
Weekend	87.1%	76.4%	75.7%
Weekday	86.0%	65.4%	64.5%
Monthly	86.4%	72.2%	69.3%

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CHU KONG SHIPPING CO., LTD.

EAC TRANSPACIFIC SERVICE

EAST ASIA AUSTRALIA CONSORTIUM CONFERENCE SERVICE
ASIA AUSTRALIA CONTAINER SERVICE
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P & O CONTAINER LINE

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KAWASAKI KISEN KAISHA LTD.
MITSUI O.S.K. LINE
NEDLLOYD LINES
NIPPON YUSEN KAISHA
SOUTH AFRICAN MARINE CORPORATION

TIENTSIN MARINE SHIPPING CO.

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WEST AUSTRALIA SERVICE
AUSTRALIAN NATIONAL LINE
KAWASAKI KISEN KAISHA LTD.
KNUTSEN LINE
MITSUI O.S.K. LINE
NIPPON YUSEN KAISHA

ZIM CONTAINER SERVICE

ZIM EILAT AUSTRALIA LINE

ZIM FAR EAST ADRIATIC LINE

招商局貨櫃航運有限公司

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